

Cato (20090519) B Steil and M Hinds - Money, Markets, and Sovereignty (book review)

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Book Review: *Money, Markets and Sovereignty*

by Doug Bandow

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[Money, Markets and Sovereignty](#)

by Benn Steil and Manuel Hinds

Yale University Press, 288 pages

The era of laissez-faire capitalism is over, it is said, as if the era of laissez-faire capitalism ever really began. Still, globalization has helped open markets around the world.

At a time of economic crisis, Benn Steil and Manuel Hinds mount a well-documented defense of globalization, "the extension of consensual economic exchange across borders." They warn: "[C]harges that financial markets and institutions, such as the International Monetary Fund (IMF), are violating fundamental rights of states remain largely unchallenged and have a natural and growing appeal to organized interests who are only too willing to harness the powers of state organs in the name of reclaiming lost sovereignty."

Money, Markets and Sovereignty is a surprisingly easy read, given the complicated issues covered. In it, Mr. Steil and Mr. Hinds consistently challenge today's statist nostrums.

Critics often treat globalization as a new phenomenon. Yet, the authors observe, "broadly speaking, the view that increasing economic and cultural interconnections across the globe are a positive development, to be advanced rather than resisted — has a much older and historically esteemed pedigree than is widely recognized."

The authors explore the relationship between "globalist thought" and "the notion that individuals have certain natural universal rights that transcend the will of rulers." This history "highlights the fact that today's trade mythology — that autarky is the natural state of affairs and that people should not buy from foreigners except with dispensation from the state — is hardly one with a compelling pedigree."

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Particularly beneficial has been the development of private commercial law. But, note Mr. Steil and Mr. Hinds: Many globalization critics hope "to preempt the organic development of common international commercial practice and expectations, and instead to dictate ex nihilo the form and scope of permissible facets of globalization."

The authors bust several anti-globalization myths. Mr. Steil and Mr. Hinds explain: "Anti-globalization writers, in contrast to their pro-globalization counterparts, do not tether their arguments to the history of ideas. They do not defend a philosophy; they endorse no particular principles of just conduct or lawmaking. Rather, their arguments are largely based on defending visions of a sublime past, now being supplanted by what are alleged to be new and illegitimate forces."

Does globalization violate sovereignty, the authors ask? Yes — just as sovereignty has been routinely limited throughout history. Critics complain about the adverse impact of individual choice, an argument that, Mr. Steil and Mr. Hinds argue, often turns out to be "an open invitation to authoritarianism. It is, not surprisingly, heartily endorsed by Chinese state censors."

Complaints about income inequality actually acknowledge globalization's positive impact on international poverty. The authors explain: "Following conspicuously pro-globalization strategies over the past decade, [China's and India's] exceptional progress in bringing hundreds of millions out of poverty has forced critics of outward-oriented economic policies to shift their focus away from poverty and toward the wealth gap."

The claim that globalization somehow "destroys nations" could not be "more welcome to despotic rulers of poor nations and less conducive to the interests of their people." Finally, the benefits of globalization, the authors contend, are real, not just theory; unfortunately, costs often are more visible and thus politically more salient.

Money, Markets and Sovereignty also addresses monetary "sovereignty," the increasing control of nation states over money and its value. Mr. Steil and Mr. Hinds discuss the creation of money, which originally was largely commodity-based and served to greatly expand commerce.

Even as countries moved toward issuing paper currency, the leading states backed their money with gold. The authors think highly of commodity-based money, though the flawed systems established after World Wars I and II created problems that "were eminently foreseeable — and indeed were not only foreseen but loudly warned of by a few souls." President Nixon ended the convertibility of dollars into gold in 1971, leaving the United States with purely "fiat" money — that is, money whose value is set by government.

The result has not been pretty. As Mr. Steil and Mr. Hinds write, much international economic disorder that has "come to pass is once again being widely blamed on a lack of economic sovereignty — this despite the fact that it was a predictable, and indeed predicted, result of a return to economic sovereignty in the monetary sphere."

Previously, trade and monetary liberalization tended to move together. In recent years, trade has been increasingly freed while money has been increasingly regulated.

In theory, politicians, with economists in tow, "could systematically outsmart the market, making it dance to their tune. Through the manipulations of monetary variables, such as the rate of monetary creation, the nominal interest rate, and the exchange rate, they could durably improve the performance of the real economy." Unfortunately, governments have mostly failed.

Mr. Steil and Mr. Hinds close with a discourse on the dollar's future. They warn: "There is little basis for presuming that this premium [to dollar-denominated assets] will persist, that investors will indefinitely sacrifice yield vis-a-vis investments denominated in other credible currencies." To restrict currency manipulation by Washington, the authors advocate "a renewed statutory framework for the Fed, one which explicitly acknowledges the global role of the dollar and the dependence of the U.S. economy on foreign confidence in it."

More broadly, they contend that it is critical to resist attacks on globalization. In their view, the issue is not so much philosophical, even though globalization reflects ideas deeply imbedded in the Western experience. The principal issue is practical. Warn Mr. Steil and Mr. Hinds: "Rolling back economic liberalism in the cause of reclaiming 'sovereignty' is a well-documented recipe for stifling wealth creation, entrenching poverty, and ratcheting up international conflict."